Transcription

CORESTATE Capital Holding S.A. - Conference Call

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PRESENTATION

00:00:02 Operator

Dear ladies and gentlemen, welcome to the conference call of Corestate Capital Holding SA. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * followed by 0 on your telephone for operator assistance. May I now hand you over to Dr. Kai Klinger who will lead you through this conference. Please go ahead.

00:00:36 Dr Kai Gregor Klinger (Head of Investor Relations & Capital Markets)

Hello, everyone. A warm welcome to our short call today for the publication of our new financial outlook for 2020. As usual, I would like to direct your attention to the forward-looking statement and disclaimer wording on page 2 of our presentation, which applies to the presentation and all comments we will be making today. I would also like to mention that everything is being recorded. After the call, a replay will be available on our website. Our CEO Lars Schnidrig and I will guide you through the presentation, followed by the usual Q&A session. The timeframe for today's call is about 20 - 30 minutes. Now it is my pleasure to turn the call over to Lars. Lars, the floor is yours.

00:01:18 Lars Schnidrig (CFO)

Thank you, Kai. And also from my side, a very warm welcome. You all know that we had to withdraw our initial financial guidance for 2020 driven by Covid-19 on 22nd of April. Since the pandemic kicked in, we saw tremendous changes in the market and especially in clients' risk appetite. But we also realised that since Q2, the sentiment for transactions is getting better very gradually, step by step. There is no doubt, investors need to look into real estate yet again, driven by the lower-for-longer mantra and thus the lack of profitable alternatives, but, of course, with a focus on lower risk return profiles. So we are seeing now larger transactions in core and core plus in the market. And from our own pipeline, several deals are very close to be signed.

We had a very challenging time in our property management during the shutdown, especially in student homes, retail and offices. But we only saw minor rent deferrals at some micro living assets. Nevertheless, within our micro living business, we will shift the focus a bit away from serviced apartments towards student homes, as we see an unchanged demand in education but somewhat reduced requests from business travellers.

Let me please speak about our real estate mezzanine-financing business, HFS. It shows a robust, I would like to say in the light of the implied risk profile, a very decent performance during the crisis. The fund volumes are kept stable at around €1.3 billion, and we only expect minor outflows by the end of the fund's year, which we will overcompensate in the upcoming months as we did in the past. HFS deliver stable interest rate margins and returns based on unchanged demand from developers as the credit crunch reduces their ability to receive financing from other sources. And this continues, of course, now as the impacts from Covid-19 begin to diminish. Since the beginning of the pandemic, we intensified our continuous monitoring of developments and borrowers. But as we focus our landings to residential projects and top locations in large German, Austrian and Swiss cities, we do not have any substantial negative outcome. And we thus expect a predictable and stable flow of income into the Stratos Funds based on the redemptions from our borrowers. As I said also during the H1 presentation, our focus now is clearly on the short- to mid-term reduction of our net debt. And - this has not changed - we expect inflows of around €200 million in the next 18 - 24 months from cash conversions of balance sheet assets in addition to cash flow from operations. Our cash position has already slightly increased from around €55 million at the end of H1 to around €63 million at the end of August. And initial placements from our balance sheet are already launched.

We remain operationally profitable. But, as announced a few weeks ago, we will reduce our costs and enhance our efficiency with a comprehensive program in the upcoming months. This consists of several measures and the first ones are already taken. So we are all also well on track here.

Now please turn to page 4.

I want to lead you through our new financial guidance for the very special year 2020 and the underlying assumptions. As you surely already know from our publications this morning, we expect aggregated revenues and gains of between €185 million - €210 million; EBITDA of between €55 million - €80 million and adjusted net profit of between €25 million - €50 million. As indicated before, we realize steady improvements in the real estate investment markets with a clear focus on reduced risk-return profiles. This still ongoing high and volatile level of uncertainty involved delays and extra loops in the process of origination and deal execution. This is coupled with steadily increasing investment pressure at pension schemes or insurers from surging money inflows. So the deal flow is gradually coming back, but the timings for each transaction are harder to predict, which makes it more difficult to foresee whether the proceeds are to be harvested in Q4 or in the next year.

We expect, based on our pipeline, a transaction volume for the ongoing year of between €1 billion- €2 billion, predominantly in core and core plus. Part of our EBITDA projection are one-off costs for the already mentioned efficiency enhancement programme of between €5 million - 10 million. We expect stemming from these initiatives savings and improvements worth clearly beyond €10 million per annum beginning in 2021. Our 2020 EBITDA will also include between €5 million and €15 million of negative extraordinary valuation effects driven by Covid-19 on our balance sheet exposure and retail and serviced apartment assets.

On the lower part of the slide, you see the revenue split for the entire fiscal year also compared to the actual figures from the first six months of 2020. Thus we expect an improved transaction environment leading to higher acquisition-related fees of between €25 - €35 million compared to the current run rate. The income stream from assets and property management fees is affected by temporarily reduced development fees in selected countries, but also by transitory minor letting rates in some serviced apartments and commercial assets. We expect between €135 million and €150 million assets and property management fees for the full year 2020 and income from mezz loans of between €5 million - €10 million. We foresee a single-digit million Euro month of income from warehousing and real estate operations. Our income from alignment capital will be between €5 million - 10 million. So all in all, we expect aggregated revenues and gains of between €185 million - €210 million.

Finally, let me give you some intel on what we envisage for 2021. As all major drivers remain in place, we anticipate that the transaction market will continue to pick up further and return to a somewhat normal level. This will be reflected in our transaction- and success-based fees, but we also expect our income from the balance sheet usage to gain momentum. And given the ongoing strong demand from developers as explained above, our mezzanine business will show another very strong year in margins and growing funds volume, in returns and, finally, in promising cross-selling opportunities to our core and core plus equity clients' funds. In brief, we have done our homework with strategic enhancements of our business model, as well as the execution of a comprehensive programme to further improve our efficiency, and thus we are confident to deliver again a strong performance in 2021. With this, I would like to hand back to the operator, and we are now happy to answer your questions.

Q&A

00:09:25 Operator

Thank you. Then we will now begin our question and answer session. If you have a question for our speakers, please dial 0 and 1 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask a question. If you find your question is answered before it is your turn to speak, you can dial 0 and 2 to cancel your question. If you are using speaker equipment today, please lift the handset before making your selection. One moment, please, for the first question. We have received the first question. It is from Thomas Neuholz of Kepler Cheuvreux. Your line is now open. Please go ahead.

00:10:09 Thomas Neuhold (Kepler Cheuvreux)

Good afternoon, gentlemen. I have two questions. Firstly, on the expected strong decline in asset and property management fees compared to last year. Can you please provide us with more details of what are the key drivers here and your underlying assumptions? And the second question would be on the planned asset inventories and joint venture disposals. I know it is probably a little bit early, but can you give us an indication based on the current discussions if you think you will be able to dispose of these assets at book value, or do you incur a loss out of these disposals? Thank you.

00:10:54 Dr. Kai Klinger

Hello, Thomas, it is Kai. Maybe we start with your first question. Of course, we have a comprehensive placement schedule for each and every asset which we have currently on our balance sheet, as a single investment or as a co-investment. And therefore, we know roughly which we can place or we want to place - and this is a discretionary decision - in the next upcoming months or to shift this to the first or second half of 2021, when we expect a much more normalised transaction environment. From this schedule, we know roughly what we can achieve already in this year. Of course, we have always low-hanging fruits, and maybe some things where you have to stretch yourself a little bit higher. And actually, for this year, we feel very confident that we can achieve our goals.

Your first question about our lower level of asset and property management fees is reflected in several reasons. And predominantly all are against the backdrop of Covid-19. So, for instance, we have in our property management fees a lower general performance. Let's take student housing, serviced apartments, and of course, we have also there performance-based compensation components, which have suffered especially in the second and the third quarter. We took also conservative assumption on our HFS coupon participation fee, which was in 2019 around between €55 - €60 million. And currently we are dealing with around €50 million for 2020. We have provided a minor fee waiver for some of our value-add investments, which also suffered during the peak of the Covid-19 pandemic. Let's take, for instance, serviced apartments. We have in our more risky asset classes - we are talking about opportunistic funds - also performance-based fee components, which also burden a little bit in this year our asset management fees from these vehicles. So, in total, we are talking between €25 - €30 million impact for this year, and we feel very comfortable that we will see a much stronger performance if the markets are back in a more normalised environment.

00:14:12 Thomas Neuhold (Kepler Cheuvreux)

Okay, understood. Maybe just a quick follow-up question on HFS. You mentioned that there the business is still running quite well. And I think at the half-year results conference call, you mentioned that also the interest rates have remained unchanged. So I was just wondering why are you assuming here a strong decline in the coupon participation fee for the full year versus last year? If fund sizes are unchanged and also if the interest rates are basically unchanged?

00:14:45 Dr. Kai Klinger

You're absolutely right. But first of all, we have seen less turnover in the fund in general, and this led to higher risk provisioning only from a fund accounting perspective. And of course, our external fund servicer is quite conservative in every assumption for that fund. So, I am with you. It could be, if everything goes like in normal days - but we are not in normal days -, then we would end up on the same or close to the same levels like last year. We are still two months away from the end of a fund year.

00:15:31 Lars Schnidrig

Thomas, it is Lars, let me add something. I mean, for the crisis, I think we all see that the fund is rather stable. Why is this a case? Because other sources of financing for developers are rather closing down or are rather more stretched. So when you talk to the mortgage bank, which I do on a regular basis, I would say 70 - 80 % of their credit approvals are withdrawn for deals that touched their credit committees, why? Because, as we saw in 2008, 2009 in the financial crisis, mortgage banks obviously turn away from higher risk classes, which development is obviously the case. In addition, you see this all over the market, smaller mezz funds who do not have the financial capabilities that we have are getting under serious pressure. So we see quite a decent pipeline. What will we do in 2021 and there we already active: We will enhance our fundraising there because there is quite serious business currently driven by Covid-19 coming up. And it is still there. On the other hand, as Kai says, we had less churn and less churn means less underwriting fees. That is reflected in the acquisition fees. And again, it is only an accounting issue, on the coupon participation fee, the longer the loan is with us because the developer may not find the access via a mortgage bank currently, but that, of course, will come back. As we saw it in the financial crisis, roughly a shift of 6 - 12 months that they start then again on a larger scale financing development. And if they start developments, then residential and if residential, then in the top 10, 15 cities, exactly where we are.

00:17:33 Thomas Neuhold (Kepler Cheuvreux)

Ok, understood. Thanks a lot.

00:17:35 Lars Schnidrig

And let me add also something to the first question you had. Or the second question regarding the disposals. To be clear, this is absolutely planned. These are assets - you know our balance sheets very well - these are assets where co-investments, which are anyway planned to be placed in the next 12 - 24 months. The only thing why I highlighted this is to make clear we want to delever the company and not only via increased EBITDA, but we want to delever via reducing the gross debt. And for that you need sources. And one source will be assets that we have anyway planned to replace during the next 24 months.

00:18:24 Thomas Neuhold (Kepler Cheuvreux)

Thank you.

00:18:35 Andre Remke (Baader Bank)

Hi, Sirs. A couple of questions from my side, or three questions. First, starting with, on page 4, the transaction volume, which you mentioned, €1 billion - €2 billion. Could you remind me what was the level in the first half in terms of transaction volume? So what has already been reached or is the €1 billion - €2 billion what you expect for the remainder of the year? And probably you could provide us with a rough split of what comes from acquisitions and from disposals. This is the first question, please.

00:19:12 Dr. Kai Klinger

So, in terms of volumes, we have reached in the first half roughly €600 million - €700 million. On AUMs, new AUMs, and this is only new money coming in, so no disposals. And this, of course, reflected in our acquisition-related fees. We have discussed this already in the first half-year call - of around €7 to 8 million acquisition-related fees.

00:19:47 Andre Remke (Baader Bank)

That means the €1 billion - €2 billion you are expecting, this is the total number for the year, not for the second half? [Kai Klinger: Right, exactly.] Ok.

Then, same page here, you stated the number which is included as kind of one-off cost. Is this included in the adjusted net profit or are you adjusting for that? The €10 million and the €15 million?

00:20:20 Dr. Kai Klinger

The €5 - €15 million will be included in our revenues and will not get adjusted. The €5 million - €10 million will get included, of course, in our cost line. And we do not plan to adjust this. So, it is not an adjusted guidance in terms of these €5 million - €10 million or €5 million - €15 million of highlighted extraordinary effects.

00:20:56 Andre Remke (Baader Bank)

And the last question, Lars mentioned the inflow of €200 million as a rough number from cash conversion as discussed. Does this number - €200 million - include the operating cash flow?

00:21:11 Dr. Kai Klinger

No, it is always in addition to the expected operating cash flow. It would be on top of that.

00:21:19 Andre Remke (Baader Bank)

OK, perfect. That's it from my side. Thank you very much.

00:21:32 Manuel Martin (Oddo BHF)

Yes, hello. Thank you, gentlemen, for taking my questions. I have basically two or three questions. A follow-up question on HFS: If I understand that correctly, HFS will be a little bit softer in 2020. And we are going to see a catch-up effect in 2021. Is that correct?

00:21:57 Lars Schnidrig

That's correct. And again, to be transparent: two effects - the one is: developers need our money by all means. And unfortunately, they were due to Covid and the partial shutdown on the mortgage banks rather limited in getting an exit. That will come back. And why is it getting better in 2021? Because we will definitely enhance our fundraising, because the pipeline is rather larger than smaller due to other limitations from other financing providers.

00:22:43 Manuel Martin (Oddo BHF)

OK. OK, thank you. And the second follow-up question is on the transaction volume. Andre asked already for each one 2020. Could you be so kind to remind us of the transaction volume for the full year 2019 to have a comparison year on year?

00:23:07 Dr. Kai Klinger

Oh, just give me a second.

So, we would be at €2.5 billion, so, a touch higher.

00:23:33 Manuel Martin (Oddo BHF)

All right. That is it from my side. Thank you.

00:23:39 Operator

Thank you. At the moment, there are no further questions, so as a reminder: To ask a question, please press 0 and 1on your telephone keypad.

We have received another question. It is from Philip Haessler of Pareto. Your line is now open, please go ahead.

00:24:32 Philipp Haessler (Pareto)

Yes, hello. Philip Haessler from Pareto. I have only one question left. Could you explain why you have issued a new guidance now and not three weeks ago when you published H1 results? What has changed during the last three weeks? Is it due to the change of the market environment or have you signed some deals? If you could elaborate a little bit on this. Thank you.

00:24:55 Lars Schnidrig

Yes, two points. It is not a wish concert, as we Germans say. So given we are so to say permitted to give a guidance once we have a guidance, according to BaFin. But in reality, why have we not done it earlier? Because now we feel that we have more visibility, simply. You see that certain markets have closed down. Again, the second Covid wave, and as said, we have now full visibility. And that is why we were obliged - not permitted, obliged - to provide a guidance. That is the reason.

00:25:41 Philipp Haessler (Pareto)

OK, so more a technical reason than that you are much more confident than three weeks ago.

00:25:45 Lars Schnidrig

Correct.

00:25:59 Pascal Boll (MainFirst)

Yes, hello. Thanks for taking my question. I have a follow-up question on HFS. You just mentioned that the pipeline is filled with a lot of demand from developers. However, how does the other side look like? How inclined are investors at this point to deploy new money in those vehicles?

00:26:20 Dr. Kai Klinger

Hi, it is Kai. Hello, Pascal. As you can imagine, it is an uphill struggle to convince people to invest in high-risk capital like mezzanine in the middle of a crisis. At the end of the day, as long as we can provide a best-in-class performance in our Stratos Funds in HFS, we feel very confident to convince - and we have already done this - a double-digit million amount of new commitments into the funds to compensate some minor outflows, which we are anticipating now at the end of the fund year. And we definitely will, based on closed books and records of the fund year 2020, and, of course, including the impact of the crisis in shown and proven track record here, convince more money to support our organic growth ambitions in our HFS mezzanine business.

00:27:33 Lars Schnidrig

Actually even in those days before we really execute our initiatives, further initiatives on our fundraising, we see that investors provide us with new capital. What helps is that we have a long track record. What helps is that we go through this mega crisis with quite a stable fund performance because obviously - where is it driven from? From the risk we are offering, yes, we are at an early stage of the development, but we keep our prudence and we are pretty conservative regarding our locations, and that per se is quite attractive when you take this as a risk return profile.

00:28:26 Pascal Boll (MainFirst)

Thank you.

00:28:28 Lars Schnidrig

And never underestimate the funds that are withdrawn from smaller competitors, from other projects. You can read this every day in the news. They have to go somewhere. And obviously that also helps.

00:28:51 Operator

Thank you. There were no further questions, so I would like come back to you.

00:28:57 Dr. Kai Klinger

Thank you so much for listening. We appreciate your interest and your questions. We will be on the road, unfortunately mainly online, but as far as possible also physically in the upcoming weeks. But please do not hesitate to contact us for any further queries you may have. And please be reminded that our Capital Markets Day will be now taking place on November 19th. Also online and if feasible by any means, offline. Stay healthy. Thank you again and goodbye.

00:29:32 Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.